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Tax Foundation Vol. 34, No. 9 October 1990

Tax Features

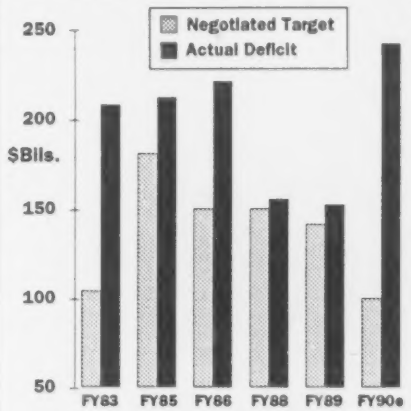
Summitry Takes a Fall As Budget Process Breaks Down

A decade of budget summitry culminated in defeat for both President Bush and his congressional counterparts at the summit, but especially for the very idea of high-level budgetary negotiations. For the sixth time in nine years, the White House and congressional leaders held special negotiations to reduce the federal deficit. The package they agreed on was quite similar to the product of previous summits, a combination of tax increases and promised spending restraints. But instead of being passed by a reluctant Congress, the summit agreement ran into a hornet's nest of congressional critics willing to defy their party leaders and vote down the budget resolution.

These opponents cited again and again the simple fact that high-level budget talks held in 1982, 1984, 1985, 1987 and 1989 all fell far short of their stated goals (see figure above and the Tax Foundation Issue Brief, *Decade of Budget Summitry*, June 1990). In fact, a summit-arranged budget has never even reduced the deficit below the level of the summit year, and the 1989 summit was the biggest failure of

See Summitry on page 7

Budget Summits' Deficit Targets vs. Actual Deficits



e Actual deficit for first eleven months of FY90.
Source: Tax Foundation.

FRONT BURNER

Attacking the Budget Deficit: Two Views

Congressman Leon Panetta (D-CA)

Congressman Newt Gingrich (R-GA)

On pp. 2-3, Congressman Leon Panetta, chairman of the House Budget Committee and Congressman Newt Gingrich, House Republican Whip, address one of the nation's front burner issues: How can we ease our current budgetary gridlock and reduce the deficit?

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Senator Bob Packwood to Receive 1990 Distinguished Public Service Award

Bob Packwood, Republican senator from Oregon, will receive the Tax Foundation's Distinguished Public Service Award at the Foundation's 53rd Annual Dinner on December 5th at the Waldorf-Astoria Hotel in New York City. A major policy address by the senator will follow his acceptance.

Senator Packwood is the Ranking Minority Member of the Senate Finance Committee and was its chairman from 1984 to 1986 when he was a prime mover behind the Tax Reform Act of 1986.

The dinner will follow the Foundation's 42nd Annual Conference. Its two sessions will focus on ideas for improving the federal budget process and new developments in state/local taxes.

Senator Bob Packwood (R-OR)

Tax Foundation

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FRONT BURNER

The Budget Process Must Move Forward

By Congressman Leon E. Panetta

Congressman Leon E. Panetta (D-CA)

The budget resolution adopted by the Congress with bipartisan support on October 8 is the essential first step in the budget process. It contains the savings and deficit reduction targets agreed to by the President and the bipartisan Congressional leadership. Now, Congressional committees are beginning the legislative process of implementing the spending cuts and tax increases needed to achieve the $40 billion/$500 billion deficit-reduction targets agreed to for fiscal year 1991 and fiscal years 1991-95 respectively.

President Bush — who deserves great credit for putting his prestige on the line for this budget — has called the package a tough agreement for tough times. Too often, Presidents have not been willing to deliver that message when it was needed. That is one of the reasons we now must enact a $500 billion deficit-reduction package.

"President Bush — who deserves great credit for putting his prestige on the line for this budget — has called the package a tough agreement for tough times. Too often, Presidents have not been willing to deliver that message when it was needed."

But the reality is, we are a nation at risk — at risk militarily in the Middle East; at risk politically in a world of shifting power and relationships; at risk economically, with a rising likelihood of recession, a slow but steady erosion of our position in the world economy, and a frustrating inability to respond to difficult issues here at home; and at risk from the specter of mindless sequestration, drastic across-the-board cuts in some of this nation's most critical programs, from education to defense.

The huge budget deficits that have piled up over the past decade have robbed the resources we need for investment in our future. Savings, which should go into new businesses and economic growth, are instead financing government borrowing. And the taxes we ask the American people to pay out of their hard-earned dollars must go to pay interest on that borrowing instead of financing improvements in education or rebuilding the nation's transportation system.

The Treasury's extraordinary borrowing has pushed up interest rates. Now, at a time of very slow growth, high interest rates can submerge the economy, pulling it down into recession.

This economy is on the brink, and those who play partisan or political games — or power games — should know there is a terrible price to be paid. Growth in the second quarter was less than half a percent, and that was before the impact of high energy prices. The combination of a soft economy, oil shock, inflation, and sequester will send the markets reeling and endanger the financial stability of both the national and international economy.

This agreement is not a panacea for our short-term economic problems, but deficit reduction is essential for giving the Federal Reserve the latitude it needs to reduce interest rates and mitigate the depth and duration of a recession. Furthermore, deficit reduction is the only proven tool for assuring long-term growth in investment, productivity, employment, and incomes. That is why Federal Reserve Chairman Greenspan said before the vote on the budget that if it were voted down, "prospects for coming to grips with the corrosive effects of budget deficits on our economy would be dim indeed."

This is by far the largest and most real deficit reduction measure ever seriously contemplated by the Congress or by any President. It requires tough choices in the areas we have always known would have to be involved in a deficit-reduction plan — defense, entitlement programs, and taxes. And it lasts five years — no tricks, no smoke and mirrors.

Is it perfect? Far from it. Is it painful? With half a trillion dollars in deficit reduction, how could it not be? Is it the package that any single member of Congress — or the President — would have constructed? Absolutely not. It is a compromise, which means that everybody gives up something for the greater good. That's what democracy is all about, particularly at a time of divided government. Members of Congress need to remember that we were elected not only to represent a particular point of view, but to govern.

"We are a nation at risk ... economically, with a rising likelihood of recession, a slow but steady erosion of our position in the world economy, and a frustrating inability to respond to difficult issues here at home."

Passage of the budget resolution has moved the process forward. It was supported by a majority of both Democrats and Republicans in the Senate, and a majority of Democrats and a significant minority of Republicans in the House. Those who supported it rose above parochial concerns, regional interests, and ideology and partisanship and cast a vote for the greater good of this country — for our nation's future, for our children's future. To implement the budget agreement will require that they — and hopefully others — do so at least one more time.

Leon E. Panetta has represented the 16th district of California in the U.S. House of Representatives since 1977. He is currently the chairman of the House Budget Committee and the Deputy Majority Whip.

FRONT BURNER

Bad Tax Policy Makes Bad Social Policy

By Congressman Newt Gingrich

Congressman Newt Gingrich (R-GA)

In America, tax policy is social policy. Every provision in the tax code sends a signal to society, and we ought to be sending signals that are pro-family, pro-growth, pro-savings, pro-entrepreneurship, pro-work and pro-children. The current tax code does just the opposite, and the recently rejected summit agreement was unfortunately just as bad.

It was an insiders' package that took care of the needs of Washington at the expense of the American people. It did so by raising taxes while it increased domestic discretionary spending. Even more disheartening was the almost total absence of economic incentives; those of us who want to encourage growth have been very disappointed. What are some provisions that would have helped make the summit agreement a success?

"The recently rejected summit agreement ... took care of the needs of Washington at the expense of the American people ... by raising taxes while it increased domestic discretionary spending."

First, based on a bill introduced by Senators Kasten and Mack and Congressman Mickey Edwards, the capital gains tax would be reduced to 7.5 percent for individuals in the 15-percent bracket and to 15 percent for individuals and corporations in the 28-percent bracket. It would also be indexed for inflation so that when Americans invest, they do not have to be afraid that their government will defraud them by inflating the currency.

Second, based on Congresswoman Nancy Johnson's bill, manufacturers would be allowed to expense up to $250,000 a year in productive equipment investment. This is not a big deal for large corporations, but it is a very big deal for small suppliers or for anyone who wants American small business to have the new equipment needed to compete in the world market.

"The capital gains tax [should] be reduced to 7.5 percent for individuals in the 15-percent bracket and to 15 percent for [those] in the 28-percent bracket."

Third, based on S. 1256 by Senator Bill Roth, after-tax, non-deductible contributions to individual retirement accounts or plus accounts would be allowed in amounts up to $2,000 per taxpayer per year, including non-working spouses. Up to 25 percent of the funds could be withdrawn interest-free or tax-free to purchase a first home, college education for children or grandchildren, or for catastrophic medical expenses. By building an incentive to save into the tax code, we would be saying to Americans: We want you to save for your education, we want you to save to buy housing, we want you to save for health care, and we want you to save for retirement.

Lastly, my staff and I are writing what I am calling the Harry S. Truman child tax credit. A devastating measure of how far the code has become biased against families, against children, and against workers, in favor of government bureaucracy, can be taken by looking back to 1948, when Truman was president. If we allowed American taxpayers to take the same deduction per child, as a percentage of income, that they could in 1948, it would be $6,300. In addition, in 1948, the maximum Social Security tax was $30 a year — today it is $3,924. And people wonder why so many children live in poverty and why so many families break up. We have designed a tax code and a welfare code that says: If you stay together, we will punish you; if you break up, we will give you public housing. Is it any wonder we have the problems we have?

"If we allowed American taxpayers to take the same deduction per child, as a percentage of income, that they could in 1948, it would be $6,300."

The President and congressional leaders offered the American people a budget package that simply did not address these problems, while suggesting that there were no responsible alternatives. I have mentioned some specific, constructive proposals, but speaking more generally, there are at least three alternatives to this type of budget package. The Congress has 13 appropriations bills that the President can veto if they exceed the limits he sets. Another alternative is for the President to go to the country and ask people to put pressure on Congress to pass the right kind of tax cuts to create jobs. Third, by restricting federal budget growth to no more than four percent per year, we could balance the budget by 1997.

This is a diverse and imaginative country. The proponents of the summit package who predicted economic chaos if that particular budget agreement did not pass simply had it wrong. The sun has continued to come up; the Constitution is still in place; and we can return to the drawing board to get another, more sound, budget plan for our country.

Newt Gingrich has represented the 6th district of Georgia in the U.S. House of Representatives since 1979. He was elected House Minority Whip in 1989.

International Taxation Seminar Addresses Taxation of Both Inbound and Outbound Foreign Investment

The Tax Foundation's seminar on U.S. tax treatment of foreign investment was held September 25 in Washington, D.C. Four panels of speakers from government, industry and academia gave their perspectives on U.S. tax treatment of U.S. investment abroad and foreign investment in the U.S. Over 100 tax executives, legislative and executive branch staff, and members of the business press were in attendance.

Keynote speaker Congressman Hank Brown (R-CO) of the House Ways and Means Committee, suggested that this year's budget package is likely to include provisions designed to crack down on FCDs and other domestic operations of foreign companies. "I think there is . . . a 50/50 chance . . . that you could see the tax on the foreign transfer of ownership provision added," Brown said.

Dr. Edward M. Graham, senior research fellow at the Institute for International Economics, presented an issue overview. He pointed out the dramatic increase in both U.S. participation in foreign firms as well as foreign direct investment in the U.S. However, the U.S. still has a lower rate of foreign direct investment than France, Germany or the U.K., according to Graham. "U.S. policy should do nothing to discourage either inward or outward investment," Graham concluded.

Richard M. Hammer, International Tax Partner at Price Waterhouse and Chairman of the U.S. Council for International Business's Tax Committee, added that "the more that tax policy tilts against foreign multinationals in the United States, the more possibility there is that the tax policy of other nations will be tilted against U.S. subsidiaries and their operations in those countries."

Deputy International Tax Counsel Peter Barnes at left elicits a wry smile from Raymond Haas, international tax partner at Ernst & Young.

Hammer also addressed superroyalties, the application of intercompany transfer pricing concepts to the area of intangible property rights. He went on to say that superroyalties lead to double taxation. "I don't know what to do about [it] except to go down to Congress and ask them to change the rules .... When you are looking for revenue, you get pretty desperate. I think this is a case of desperation."

Unfortunately it is more than complexity of rules that bedevils U.S. tax law and the policy behind it, according to Hammer. "What is really troublesome in foreign tax policy is more of a case . . . of legal changes enacted without serious thought being given to the underlying policy; of a failure to update tax policy to a modern economic and investment climate; of overconcentration on stamping out potential abuses without focusing on how such ... amendments fit into the overall scheme."

U.S. investment abroad was also addressed by Raymond Haas, International Tax Partner, Ernst & Young; Murray Schlussel, Assistant General Counsel - International Tax, Ford Motor Company; Peter A. Barnes, Deputy International Tax Counsel, U.S. Department of Treasury; B. Anthony Billings, Tax Foundation Senior Research Fellow and Professor of Accounting, Wayne State University; and John F. Brussel, Tax Director - International, AT&T. David M. Crowe, Partner, Caplin & Drysdale, and Robert N. Mattson, Assistant Treasurer of IBM were the panel chairmen.

The third and fourth panels focused on the inbound transactions of foreign investment. An issue overview was presented by Elliot L. Richardson, senior resident partner at Milbank, Tweed, Hadley & McCloy, and Chairman, Association for International Investment.

> ***"The more that tax policy tilts against foreign multinationals in the United States, the more possibility there is that the tax policy of other nations will be tilted against U.S. subsidiaries and their operations in those countries."***
>
> ***— Richard M. Hammer***

According to Richardson, the U.S. is dealing with a situation in which the corporate domicile of the corporation and the place where the preponderance of its shareholders may live, is increasingly irrelevant to the determination of rational policies. Where the employees are, where the customers are, may be much more significant.

This raises the question of where responsibility should lie and harmonization and consistency can be achieved. "The most useful effort that could now go forward would be one that seeks to

From left: Tax Foundation Director of Corporate Development Ronald Bunn, Congressman Hank Brown (R-CO), Tax Foundation Vice President Dan Witt, and Co-Chairman of the Tax Foundation, James C. Miller III.

bring about [a] maximum practicable level of coordination among countries," Richardson added. "It obviously makes sense that in an era of 24-hour securities trading around the world that there should be harmonization in securities laws."

Bruce R. Bartlett, Deputy Assistant Secretary for Economic Policy, U.S. Department of Treasury asserted, "The investment climate of a nation is the fundamental determinant of foreign investment." This means that increasing foreign investment in the U.S. is a sign of strength, not weakness. It also means that it is probably impossible to have a strong economy without foreign investment, according to Bartlett.

Congressman Phil Crane (R-IL) provided a historical perspective on the antipathy of some Americans toward foreign investment.

Less investment will mean fewer jobs, lower productivity, and a lower rate of growth. Thus, the price for reducing our dependence on foreign capital would be very high, he said.

It is an unsound economic policy that does not promote the involvement of Americans in investment overseas and investment in the U.S. from abroad, added Congressman Philip M. Crane (R-IL), a member of the House Ways and Means Committee and the Ranking Minority Member of the Subcommittee on Trade. He asserted that most of the emotional argument against foreign investment is thinly disguised bashing of the Japanese.

Compliance and transfer pricing was discussed by James M. Carter, Senior Tax Counsel, ICI Americas; and Secretary, Organization for the Fair Treatment of International Investment. "The figure of $25 billion was mentioned recently as the amount by which the U.S. subsidiaries of foreign based multinationals have cheated, evaded, or defrauded the U.S. government out of taxes. The examples that are being given to demonstrate how that is done simply don't hold water," Carter said.

"You take advantage of the tax laws as you find them, and in that respect the U.S. subsidiary of a foreign multinational is no different from the U.S. company that is owned by U.S. shareholders," he added. "Instead of trying to force foreign countries to use the same kind of rules to tax their people, the U.S. Congress ought to be looking at how to relieve the tax burden on the U.S.-owned companies." He concluded by saying, "Instead of throwing stones and calling names and saying that these nasty old foreigners are cheating us, we ought to try to bring some rationality to the tax scheme. We ought to try to do it on a cooperative basis."

Peter A. Barnes, Deputy International Tax Counsel at the U.S. Department of the Treasury, pointed out that some proposals made by other panelists in the name of simplification or equity would garner much less tax revenue and were therefore out of the question, especially in the midst of a budget crisis. On simplification issues, he said, "What I would encourage you to do is not to walk away just discouraged by all the problems that are created for foreign-owned U.S. companies or U.S.-owned foreign companies, but instead to go back and revisit the smaller issues that we might usefully approach over the next year."

Other speakers included Catherine T. Porter, Partner, Miller & Chevalier; Harrison J. Cohen, Legislation Counsel, Joint Committee on Taxation; and Richard Pratt, Economic Counsellor, Embassy of Great Britain. Robert Ashby, Assistant Vice President, Taxes, Northern Telecom Inc.; and John G. Wilkins, Partner, Coopers & Lybrand, were the third and fourth panel chairmen.

Proceedings of the seminar will soon be available from the Foundation.

From left: Tax Foundation Director of Fiscal Affairs Paul Merski; Elliot Richardson, former Secretary of Commerce and currently Senior Resident Partner at Milbank, Tweed, Hadley & McCloy; and Tax Foundation Vice President Dan Witt.

Tax Foundation President Wayne Gable listens to Margaretha Debandsbutter of the European Community Chamber of Commerce in the U.S., Inc.

Patrick J. Moran, Vice President, Fiscal Legislation, Merck & Co., speaks with Peter Barnes who presented the Treasury Department's views to the seminar.

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Government and Your Tax Dollar

How Governments Raise the Money They Spend . . . .

Almost 28 cents of every dollar raised by federal, state and local governments comes from individual income taxes, according to analysis of FY1988 data (latest reported). That totaled more than $489 billion of the $1.776 trillion that governments collected that year.

FICA Gaining Fast

Although the individual income tax has been the most prodigious government revenue raiser for over 40 years, it is being overtaken by other taxes. State and local taxes have grown at a rapid pace, as have nontax revenues, but the fastest growing of all tax sources from 1960 to 1988 was Social Security payroll taxes, rising from 7.0 cents per dollar of revenue in 1960 to 17.5 cents in 1988. Social Security tax collections in 1988 were $310 billion, 25 times as large as in 1960. Other major revenue raisers included:

- Current charges, 9.8 cents;

See Government Taxing on page 8

How Federal, State, and Local Governments Raise Each Dollar of Public Funds

Selected Fiscal Years 1960-1988

(Cents Per Dollar of Total Revenue)

Source	1960	1970	1980	1987	1988
Tax Revenues	82.7	82.4	78.2	74.2	74.9
Individual Income	28.2	30.3	30.7	28.4	27.6
Social Security (OASDHI)	7.0	11.5	15.0	16.4	17.5
Property	10.7	10.2	7.3	7.2	7.4
Selective Sales and excises	12.5	9.8	6.5	5.7	5.8
Corporate Income	14.8	11.0	8.4	6.3	6.6
General Sales	3.5	4.8	5.5	5.8	5.9
Other taxes(a)	6.0	4.8	4.8	4.3	4.0
Nontax Revenues	17.3	17.6	21.8	25.9	25.1
Current Charges	8.1	7.9	8.6	9.7	9.8
Miscellaneous general (b)	3.3	4.0	6.7	7.6	7.1
Employee retirement	1.9	2.5	3.1	5.0	4.6
Utilities and liquor stores	3.2	2.6	2.7	3.0	3.0
Other nontaxes	0.8	0.6	0.7	0.6	0.6
Exhibit ($Billions):					
Total Revenues	$153.1	$333.8	$932.2	$1,677.1	$1,776.4
Surplus (+) or deficit(-)	$1.8	$.8	-$26.5	-$132.9	-$144.0

[a] Includes death and gift, motor vehicle and operators licenses, unemployment contributions, and miscellaneous taxes.

[b] Includes interest earnings, special assessments, sale of property, and other general revenue.

Source: Tax Foundation computations based on data from U.S. Department of Commerce, Bureau of the Census.

. . . . And the Ways They Spend the Money They Raise

How Federal, State, and Local Governments Spend Each Dollar of Public Funds

Selected Fiscal Years 1960-1988

(Cents Per Dollar of Total Revenue)

Source	1960	1970	1980	1987	1988
Major social welfare programs, total	20.1	25.5	33.2	32.4	32.6
Social Security (OASDHI)	7.1	10.8	15.6	15.6	15.6
Social services and income maintenance[a]	8.5	10.7	13.2	12.8	12.9
Government employee retirement	2.0	2.4	3.1	3.1	3.2
Veterans (not elsewhere classified)	2.5	1.6	1.3	1.0	1.0
National defense and international relations	32.3	25.3	15.6	17.6	17.2
Education	12.8	16.7	15.0	13.3	13.4
Interest on general debt	6.2	5.5	7.9	10.4	10.5
Environment and housing	5.4	4.4	5.0	7.0	6.7
Utilities and liquor stores	3.4	2.8	3.8	3.8	3.7
Transportation	7.6	6.2	4.5	3.7	3.7
Public Safety	1.8	2.0	2.3	3.4	3.5
Government administration	1.8	1.9	2.2	2.4	2.5
Postal service (Federal)	2.5	2.3	1.9	1.8	1.8
Sanitation	1.1	1.0	1.4	1.2	1.2
All other	5.0	6.4	7.2	3.0	3.2
Exhibit ($Billions):					
Total spending	$151.3	$330.0	$958.7	$1,810.0	$1,920.4

[a] Includes public welfare, hospitals, health, social insurance administration, and other insurance trust expenditures.

Source: Tax Foundation computations based on data from U.S. Dept. of Commerce, Bureau of the Census.

Social welfare programs consumed 32.6 cents of every government dollar spent in 1988 (latest reported). Almost one third of 1988 public expenditures, some $627 billion out of total spending by all levels of government of $1.92 trillion, supported the social welfare network.

Other spending categories which consume a major chunk of each government dollar spent are:

- National defense and international relations, 17.2 cents;
- Education expenditures, 13.4 cents;
- Interest costs, 10.5 cents; and
- Environment and housing, 6.7 cents.

Social Welfare Spending Dominates

Federal Social Security (OASDHI) is the largest portion of social welfare expenditures and in 1988 was the single costliest spending program, claiming

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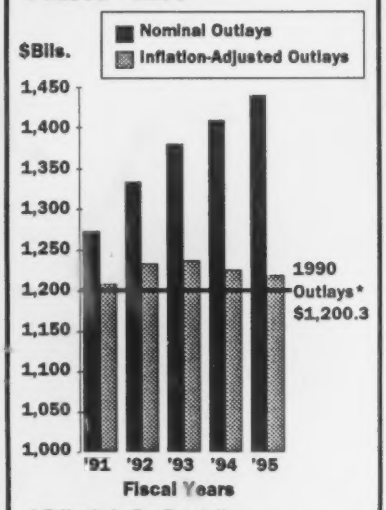
Summitry from page 1

all in that regard.

Ironically, the fiscal years that were not preceded by budget summits actually resulted in the most real deficit reduction. In FY1984, the deficit dropped $23 billion when spending growth was held to 5.4 percent — half the rate of revenue growth for that same year. In FY1987, spending grew only 1.4 percent and the budget deficit fell a record $71.5 billion.

Estimated Outlays of 1990 Summit Agreement

FY1991 – 1995



* Estimate by Tax Foundation.
Note: All figures exclusive of deposit insurance.

Did the budget package negotiated by the summit this year deserve its fate? By any standards of sound fiscal policy, it left a lot to be desired. It called for $162 billion in new revenue over a 5-year period, with an assortment of spending restraints and other deficit-reducing measures intended to cut the deficit a total of $500 billion. The vast majority of these spending restraints were scheduled to be implemented in the out years, under the next two congresses. The package contained no significant budget process reforms, and the spending caps did not apply during the first two years of the agreement to revisions in spending because of "technical and economic adjustments."

Nor would they have applied during the remaining three years if the President's representatives and the congressional leadership agreed that revisions were in order.

Even if all the enumerated spending restraints had been implemented, outlays would have been higher every year of the package than they were in fiscal year 1990 (see figure above). In other words, the agreement would not have cut spending as advertised.

Optimistic assumptions were made about the economy and the enforceability of the package, leading wary observers to conclude that the defeated summit agreement would not have reduced the federal budget deficit by $500 billion, if at all.

"A summit-arranged budget has never even reduced the deficit below the level of the summit year, and the 1989 summit was the biggest failure of all in that regard."

PRESIDENT'S MESSAGE

1986 Tax Reform Did Not Result In Lower Tax Bill for the Rich

Wayne Gable

The verdict is finally in on many aspects of the Tax Reform Act of 1986 (TRA'86). As exasperating as it is to wait years before drawing conclusions on legislation that affects every American's paycheck, wait we must because the tax return data takes at least two years to collect, and 1988 was the first year for which most provisions of TRA'86 were fully implemented. Many snap judgments have been made on the Act's regressive results on individual income taxes, but they have been proven wrong.

The top earning half of the population continues to pay well over 90 percent of the federal individual income tax bill. Despite all the tax legislation witnessed over the past decade, the share of individual income taxes paid by the top earning half of America's taxpayers has varied less than 2 percent — from a low of 92.6 percent in 1982 to a high of 94.5 percent in 1988. In other words, the rich paid a *higher* percentage after tax reform.

The progressivity of the federal income tax system is futher demonstrated by the larger share of the total tax burden shouldered by the top ten percent of earners, up from 49.5 percent in 1979 to 56.9 percent in 1988. Their average tax payment in 1988 was $21,573. While this group of only 11 million tax filers paid well over half the total income taxes in 1988, their adjusted gross income ranged down to $58,368, not exactly "fat cat" status. It still takes millions of middle and upper-middle income taxpayers to pay the bulk of the total income tax bill.

Pundits have frequently asserted during the 1980s that this productive group of taxpayers has been doing *too* well. And in fact the new data do show that along with paying more in taxes, this group has experienced a high rate of increase in income. If the reduction in rates implemented by the Tax Reform Act of 1986 has resulted in people making more money and therefore paying more money into the Treasury, then apparently the lower rates have succeeded in stimulating economic activity.

When newer data become available, the Tax Foundation will be among the first to issue reports on new developments in our income tax system, but not before. Analysis of the tax burden should be based on actual data, not conjecture.

Government Taxing from page 6

- Property taxes levied by state and local governments, 7.4 cents;
- Miscellaneous general revenue (i.e., interest earnings and government asset sales), 7.1 cents;
- Selective sales and excise taxes and general sales taxes, 5.8 and 5.9 cents respectively;
- Corporate income taxes, 6.6 cents; and
- Miscellaneous taxes (death and gift, motor vehicle and operators licenses, unemployment contributions and others), 4.0 cents.

Taxes Grow Fast But Spending Grows Faster

Figures on government revenues don't always tell the whole story. In fact, they understate the amount spent by government in 1988 by $144 billion. The federal government financed $202 billion — almost one fourth of its outlays by borrowing.

State and local governments, on the other hand, took in $57 billion (6.9 percent) more than they spent, thus reducing the deficit for all governments combined to $144 billion, or 7.9 cents per dollar of spending. The fiscal 1988 deficit for all governments was almost six times the amount shown in 1980, and 8 percent larger than the deficit recorded just one year earlier.

Additional details appear in the table at the top of page 6.

Government Spending from page 6

15.6 cents of every dollar spent. Social welfare programs also include social services and income maintenance (public welfare, health and hospitals, and unemployment insurance), which accounted for 12.9 cents per dollar of government spending. Other social welfare programs included are government employee retirement, and veterans' programs not elsewhere classified, 4.2 cents.

Two Decades of High Growth

During the 1960s and 1970s, spending on social welfare programs underwent a dramatic increase, rising from 20.1 cents per dollar in 1960 to 33.2 cents in 1980. Spending on social programs in 1988 came to 16 times what it had been in 1960, whereas all other programs combined increased tenfold over the same period.

Education and Transportation Spending Down

Another notable recent trend has been the relative decline in spending for education and transportation. Education spending accounted for 15 cents per dollar in 1980. It now absorbs only 13.4 cents. Transportation expenditures continue their sharp decline. They now stand at only 3.7 cents, less than half 1960 levels.

Debt Payments Rise

The fastest growing component of all government costs have been debt-related outlays. Interest payments on government debt claimed 10.5 cents of each dollar spent in 1988, compared to a 7.9 cent bite in 1980 and 6.2 cents in 1960. Total government interest payments may be a misleading figure because most of this interest cost is due to the federal debt which was over $2.6 trillion in fiscal year 1988.

The four largest spending categories — major social welfare programs, defense, education and interest payments — accounted for well over $1.4 trillion, or 73.7 cents of every dollar of federal, state, and local expenditures in 1988.

The table at the bottom of page 6 provides further details.

Tax Features

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